Wednesday, September 20, 2017 9:07 AM

Outline - (Reminder PS1 due Sept 26, noon)

1. Inflation
   a. Exercise
   b. Consumer Price Index
2. Nominal v. Real Interest Rates

1. Inflation

GDP deflator = P = nominal GDP / real GDP

P(t) = GDP deflator in a particular quarter t

Rate of increase in prices = inflation

$\Pi(t) = [P(t) - P(t-1)] / P(t-1)$

If $\Pi<0$ there is deflation (prices fall)
If $\Pi(t) < \Pi(t-1)$ disinflation (prices aren't increasing as rapidly)

A. Exercise

Japan - nom GDP

2016-07-01	536581.2
2016-10-01	539361.2
2017-01-01	538816.9
2017-04-01	542774.4

Japan - real GDP (2011 yen)

2016-07-01	522259.3
2016-10-01	524367.4
2017-01-01	525932.7
2017-04-01	529241.6

Calculate GDP deflator. Calculate inflation.

	Nominal Y	Real Y	P
7/1/2016	536581.2	522259.3	1.027423
10/1/2016	539361.2	524367.4	1.028594
1/1/2017	538816.9	525932.7	1.024498
4/1/2017	542774.4	529241.6	1.02557

B. Consumer Price Index
   i. Alternative to GDP deflator.
   ii. Cost of basket of consumer goods + services.
   iii. P
   iv. CPI is narrower (only price of C stuff). GDP deflator is price of everything.